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CALM IN THE EYE OF THE STORM

1 INTRODUCTION

As the current turbulence in the financial markets unfolds, occupational pension schemes are in for a bumpy ride over the next few months. Schemes which had exposure to Lehman (either through equity or bond investments or as counterparty) will already be looking at the implications. Our experience to date is that the fallout has in many cases been minimised by swift action by managers. But, with the financial instability far from over, what lessons can be learned to help schemes be prepared for further shocks?

This Alert looks at the investment dimension. The spotlight session at our Quarterly Legal Update on Wednesday 26 November 2008 will also focus on this. In the meantime, here are some immediate actions you can take.

2 SOME KEY POINTS

- Clearly, before proceeding with any new investments or changes to investment strategy, trustees should refresh any investment advice received before the current turmoil began.
- Trustees should consider checking whether their schemes have any areas of heavy reliance on particular financial services counterparties and discussing with the investment advisers whether anything could or should be done to mitigate that exposure.
- For those trustees who make direct use of derivatives:
 - Check with the relevant managers if there is quality collateral in place and how frequently it is margined. If there is any material uncollateralised exposure, are there steps that could in practice be taken to reduce this?
 - Do the investment managers have full authority to respond rapidly in the event of default?

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3 DATE FOR YOUR DIARY

We will expand upon these points as part of the spotlight topic at our forthcoming Quarterly Legal Update on Wednesday 26 November 2008.

This Alert was prepared by Sacker & Partners' Investment Unit to highlight key points relating to investments in the current climate.

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